

Message Text

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NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

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P 040140Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9509

INFO AMEMBASSY WELLINGTON PRIORITY

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USADB

FOR NAC AGENCIES

WELLINGTON PASS TO SUVA

E O 11652: ADS, DECLAS 3/31/74

TAGS: EAID, EFIN, FJ

SUBJ: PROPOSED ADB LOAN TO FIJI DEVELOPMENT BANK (FIJI)

SUMMARY/ ADB MANAGEMENT PROPOSES \$2.0 MILLION EQUIVALENT LOAN FROM ORDINARY FUNDS AND TECHNICAL ASSISTANCE GRANT OF \$100,000 TO FIJI DEVELOPMENT BANK (FDB). LOAN TO FINANCE FOREX COSTS OF INDUSTRIAL SUB-LOANS (INCLUDING TRANSPORT AND TOURISM) FOR NEXT TWO YEARS. LOAN WILL AUGMENT FDB FOREX RESOURCES ENABLING EXPANSION OF FDB PORTFOLIO TO STIMULATE DEVELOPMENT; TECHNICAL ASSISTANCE IS TO CONTINUE UPGRADING ORGANIZATION AND MANAGEMENT OF FDB ESPECIALLY TO IMPROVE LOAN APPRAISAL TECHNIQUES. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

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1. ADB DOC. R111-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN AND

GRANT POUCHES ADDRESSEES NOV. 27. BOARD CONSIDERATION SCHEDULED DEC. 21.

2. ADB MANAGEMENT PROPOSING \$2.0 MILLION EQUIVALENT LOAN FROM ORDINARY RESOURCES AND TECHNICAL ASSISTANCE (TA) GRANT OF \$100,000 TO FIJI DEVELOPMENT BANK (FDB). PROCEEDS OF LOAN WILL AUGMENT FDB'S FOREX RESOURCES FOR EXTENSION OF SUB-LOANS TO INDUSTRIAL, TRANSPORT AND TOURISM ENTERPRISES LARGELY IN FIJI PRIVATE SECTOR. AMORTIZATION IS FOR 15 YEARS INCLUDING GRACE PERIOD OF THREE YEARS, WITH FIXED REPAYMENT SCHEDULE OF EQUAL HALF-YEAR INSTALLMENTS THEREAFTER. INTEREST RATE CHARGED TO FDB WILL BE RATE PREVAILING AT TIME EACH SUB-LOAN IS CREDITED TO FDB'S LOAN ACCOUNT. FDB WILL ALSO PAY COMMITMENT CHARGE OF 3/4 PCT PER ANNUM ON UNDRAWN BALANCE OF LOAN ACCOUNT FROM DATES OF CREDITING. FDB HAS AGREED AVERAGE LENDING RATE FOR SUB-LOANS TO RANGE FROM 6-1/2 TO 9 PCT. FDB TO BE BORROWER AND EXECUTING AGENCY AND GOVT OF FIJI TO BE GUARANTOR.

3. ALTHOUGH AGRICULTURE REMAINS MAINSTAY FIJI ECONOMY (MOSTLY SUGAR AND COCONUT), GOVT IS ENCOURAGING IMPORT-SUBSTITUTING INDUSTRY AND TOURISM WHICH MOST DYNAMIC SECTOR SHOWING 22 PERCENT ANNUAL INCREASE IN NUMBER OF TOURISTS LAST DECADE. FIJI'S SIXTH DEVELOPMENT PLAN (1971-75) AIMS TO REDUCE URBAN/RURAL INCOME DISPARITIES, DIVERSIFY ECONOMY BY EXPANSION JOB OPPORTUNITIES IN NON-TRADITIONAL SECTORS. ALTHOUGH EXISTING COMMERCIAL BANKS MEET NEEDS OF COMMERCE, SOLE SOURCE OF LONG-TERM DEVELOPMENT FINANCING IS FDB WHICH HOWEVER IS CRITICALLY SHORT OF CAPITAL.

4. IN 1970 GOVT OF FIJI REQUESTED FINANCIAL ASSISTANCE TO FDB BUT IN LIEU OF LOAN, BANK PROVIDED TECHNICAL ASSISTANCE (TA) GRANT OF US\$90,000, FINANCING THREE DEVELOPMENT BANK EXPERTS TO REORGANIZE FDB, FORMULATE POLICY GUIDELINES, TRAIN STAFF. TA EXTENDED IN AUGUST 1972 ADDITIONAL SIX MONTHS AT US\$37,000 COST TO HELP PREPARE FDB BECOME SUITABLE RECIPIENT FOR BANK LOAN. FDB, ALTHOUGH OPERATING LARGELY ON GOVT GRANTS, HAS NO PROVISION FOR AUTHORIZED, CALLABLE OR PAID-IN SHARE CAPITAL; WAS BURDENED WITH HEAVY ARREARAGES FROM PREDECESSOR RURAL-ORIENTED AGRICULTURAL AND INDUSTRIAL LOANS BOARD WHICH HAD DISTRIBUTED FUNDS WITHOUT REGARD TO CREDIT-WORTHINESS, PROSPECTS FOR PROJECT IMPLEMENTATION AND REPAYMENT CAPACITY OF BORROWERS. FDB LACKING QUALIFIED STAFF, CLEAR-CUT POLICIES, HAD EMBARKED ON FOUR INVESTMENT VENTURES INCLUDING LIMITED OFFICIAL USE

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SUBSTANTIAL EQUITY PARTICIPATION WITH ONLY ONE SUCCEEDING.

5. SIGNIFICANT TURN AROUND OF FDB DATES FROM AUGUST 1972, WHEN ON ADVICE BANK'S TA TEAM GOVT ALLOWED PREVIOUSLY-EXTENDED F\$1.0 MILLION (F\$1.00 - US\$1.24) LOAN BE USED TO WRITE OFF BAD DEBTS AND ACCUMULATED LOSSES AMOUNT TO F\$772,000; CONVERT BALANCE OF F\$228,000 INTO EQUITY. CONCURRENTLY GOVT CONTRIBUTED NEW GRANT F\$1.0 MILLION FOR RELENDING. FDB'S COMBINED LONG-TERM RESOURCES AND

STANDING OVERDRAFT LIMIT OF \$400,000, LOANS FROM COMMERCIAL BANKS, AS OF JUNE 1973 LEFT ONLY F\$827,000 AVAILABLE FOR DISBURSEMENTS, WHILE UNDISBURSED LOAN COMMITMENTS F\$834,000 (NOMINAL DEFICIT) INDICATE URGENT NEED ADDITIONAL RESOURCES. FDB'S FINANCIAL POSITION NOW CONSIDERED SOUND, COMFORTABLE DEBT/EQUITY RATION 0.39:1 ON 30 JUNE 1973 ENABLES FDB UTILIZE ADDITIONAL BORROWINGS; FDB ATTAINED NOMINAL PROFIT ON 1972/73 OPERATIONS (F\$59,000), FIRST SINCE ITS ESTABLISHMENT. SMALL INTEREST SPREAD OF 0.4 PERCENT WHICH CONTRIBUTED TO EARLIER LOSSES NOW MORE RESPECTABLE 5.2 PERCENT; OPERATIONAL LOSSES INCURRED FROM COMMERCIAL RENTALS OF SPACE AVAILABLE IN ITS HEADQUARTERS BUILDING NOW REALIZING 9 PERCENT RETURN ON INVESTMENT FOLLOWING LEASE RENEGOTIATION RECOMMENDED BY BANK'S TA TEAM. TEAM ALSO RECOMMENDED PUBLICATION SIMPLE STATEMENT OF "FUNCTIONS AND LENDING POLICY" WHICH ADOPTED BY BOARD MAINLY LIMITS LENDING FOR DEVELOPMENT PURPOSES, FIXES MAXIMUM LOAN AT F\$200,000.

6. ELIGIBLE SUB-LOANS ESTIMATED TO TOTAL F\$2.1 MILLION NOW PENDING INCLUDE AGRO-BASED INDUSTRIES; METAL INDUSTRIES USING IMPORTED RAW MATERIALS; CHEMICALS INCLUDING INSECTICIDES AND PESTICIDES; TOURISM; OTHERS HAVING IMPORT-SUBSTITUTION, EXPLOITATION OF NATIONAL RESOURCES, OR EXPORT POTENTIAL. FOREX COMPONENT THESE LOANS EXPECTED TO RANGE FROM 70 TO 90 PERCENT. FREE LIMIT OF BANK MANAGEMENT FOR SUB-LOANS SET AT US\$40,000 (EXCEPT PUBLIC SECTOR LOANS OF ANY AMOUNT); ANY LARGER REQUIRING PRIOR APPROVAL OF BANK (SEE LOAN AGREEMENT SECT. 2.02(A)). PROCUREMENT, IN GENERAL ACCORD WITH CURRENT ADB PRACTICE DEVELOPMENT BANK LOANS, FOR INDIVIDUAL CONTRACTS EXCEEDING US\$200,000 EQUIVALENT REQUIRE INTERNATIONAL COMPETITIVE BIDDING. BETWEEN US\$100,000 AND \$200,00, FDB SUB-BORROWERS OBLIGED CANVASS REASONABLE NUMBER SUPPLIERS AMONG BANK'S MEMBER COUNTRIES; UNDER US\$100,000 FDB TO ASSURE PRICES PAID BY SUB-BORROWERS ARE REASONABLE AND COMPETITIVE. THESE LIMITS TO BE REVIEWED IN VIEW OF EXPERIENCE GAINED. (SEE SIDE LETTER NO. 1, PARA. 3).

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7. BANK MISSION CONCLUDED ADDITIONAL TA FOR FDB NECESSARY. PROPOSED GRANT PROVIDES TRAINING SUPERVISOR (FOCUSING ON IMPROVING APPRAISAL PROCESS ESPECIALLY FINANCIAL ANALYSIS AND MARKETING) AND ECONOMIST TO DIRECT ECONOMIC DIVISION, ASSIST IN INVESTMENT PROMOTION.

8. AS PARTIAL OUTCOME BANK'S TA, IN CONSULTATION WITH BANK: A) GOVT AGREED NLT 30 JUNE 1974 PROVIDE FOR CREATION SHARE CAPITAL (ABOUT F\$15 MILLION OR US\$18.7 EQUIVALENT) INCLUDING REASONABLE PROPORTION TO BE PAID UP; B) GOVT ALSO AGREES MAINTAIN AUTONOMY FDB BOARD OF DIRECTORS; HAVE BOARD REFRAIN FROM INTERVENING MANAGEMENT AND STAFF FUNCTIONS NOW PROPERLY DELEGATED TO COMPETENT MANAGING DIRECTOR AND INDUSTRIAL DIVISION MANAGER, BOTH EXPERIENCED EXPATRIATE PROFESSIONAL BANKERS RECRUITED WITH ASSISTANCE TA TEAM. FDB ASSURES IT WILL CONSULT WITH BANK PRIOR TO MAKING ANY MANAGEMENT CHANGES (SEE SIDE LTR. NO. 2, PARA. 3); C) BASIC STAFF TRAINING BEGUN UNDER TA WILL CONTINUE UNDER ADDITIONAL TA PLANNED TO BE PROVIDED SIMULTANEOUSLY WITH PROPOSED LOAN, WITH EMPHASIS ON IMPROVING APPRAISAL TECHNIQUES FOR SUB-LOANS; D) FDB AGREES TO SPEED TRANSITION FROM AD HOC OPERATIONS TO PROMULGATION EXPLICIT OPERATIONAL USE

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TIONAL POLICY, CLEARLY DEFINED TO FACILITATE FIJIAN DEVELOPMENT FINANCE NEEDS NOT BEING MET BY PRIVATE COMMERCIAL BANKS. FDB AGREES SUB-LOANS DISBURSED FROM PROPOSED LOAN TO BE LARGELY LIMITED TO INDUSTRIAL/TRANSPORT/TOURISM SECTOR, CATEGORY EXPECTED TO INCREASE AT AVERAGE ANNUAL RATE OF 20 PERCENT IN NEXT FIVE YEARS. BANK CONSIDERS FDB NOW SUITABLE RECIPIENT FOR LOAN TO SUPPORT FIJIAN ECONOMY. GOVT HAS AGREED CREATE AUTHORIZED AND PAID-UP SHARE CAPITAL FOR FDB NLT 30 JUNE 1974 (SEE SIDE LETTER NO. 3, PARA. 2). GOVT. WILL PROVIDE ON GRANT BASIS, LOCAL CURRENCY

RESOURCES REQUIRED TO IMPLEMENT PROJECT; WILL PROVIDE ADDITIONAL GRANTS OR CONCESSIONAL LOANS TO PROVIDE ADEQUATE RESOURCES ENABLE FDB TO OPERATE. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

9. IT SHOULD BE NOTED THAT ALTHOUGH AS RESULT BANK'S TA, FDB'S CONDITIONS HAVE CONSIDERABLY IMPROVED, USADB BELIEVES FDB'S OPERATIONS WILL REQUIRE CONTINUOUS SCKRUTINY FOR SOME TIME TO ASSURE THAT MANAGEMENT PRACTICES, LIQIDITY AND RESERVE POSITION, OTHER INDICATORS FINANCIAL VIABILITY, REMAIN FAVORABLE. SIMULTANEOUS TA, FREQUENT ADB MISSIONS, EXPECTED TO HELP PROVIDE REQUIRED MONITORING OF THIS PROJECT AND USADB WILL URGE BANK MANAGEMENT FOLLOW LOAN IMPLEMENTATION CLOSELY.

10. REQUEST EMBASSY SUVA'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
SULLIVAN

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